

Message Text

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INFO OCT-01 ISO-00 SS-20 SAM-01 SP-03 INR-10 L-03 NEA-14

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 7830

INFO AMEMBASSY ABU DHABI

AMEMBASSY PARIS

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY BONN

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY ROME

AMEMBASSY VIENNA

S E C R E T SECTION 1 OF 2 JIDDA 3960

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: ARAMCO PLANS (OR LACK OF PLANS) FOR THE FUTURE

REF JIDDA 3802 (NOTAL)

SUMMARY: NEW OIL COMPANY RELATIONSHIP WITH SAUDI ARABIA
REMAINS UNDEFINABLE BECAUSE PARENT COMPANIES STILL UN-
WILLING COMMIT THEMSELVES AS A GROUP TO IMAGINATIVE NEW
CONCEPTS. PARENT COMPANY SPOKESMAN AUTHORIZED ONLY TO
REPEAT LITANY THAT THEY HAVE MADE MAXIMUM CONCESSION
ALREADY IN 60/40 ARRANGEMENTS. YAMANI RUNNING OUT

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OF PATIENCE BUT STILL FIRMLY COMMITTED TO HAVING

ARAMCO STAY WITH PROFITABLE FUTURE RELATIONSHIP WITH ARAMCO PARENTS. IF SAG AND YAMANI FORCED TO TAKE ACTION INTERPRETED AS NATIONALIZATION, THIS WOULD BE FIRST AND BITTER FRUIT OF NEW SAUDI-AMERICAN RELATIONSHIP. WE MAY SOON NEED TO RETHINK PROPOSITION THAT WHAT IS GOOD FOR ARAMCO IN ITS PRESENT FORM IS NECESSARILY THE GREATEST GOOF FOR THE U.S. END SUMMARY

1. FOR THREE HOURS YESTERDAY (JULY 8) I DISCUSSED WITH AHMAD ZAKI YAMANI, SAUDI MINISTER OF PETROLEUM; CLIFTON GARVIN, PRESIDENT OF EXXON; AND FRANK JUNGERS, PRESIDENT OF ARAMCO, THE FUTURE OF ARAMCO AND OF AMERICAN OIL RELATIONS WITH THE KINGDOM.

2. YAMANI SAID, AS HE HAD REPEATEDLY IN THE PAST, THAT SAUDI ARABIA WANTED ARAMCO TO STAY, THAT IT WAS NEEDED HERE, THAT HE HAD NO ILLUSIONS ABOUT SAUDI ARABIA'S BEING ABLE TO HANDLE ITS OIL AFFAIRS BY ITSELF AND THAT HE KNEW THE ONLY WAY TO KEEP THE COMPANY HAPPY AND PRODUCTIVE WOULD BE TO INSURE IT SUBSTANTIAL PROFITS.

3. ARAMCO, HE SAID, WOULD BE A 100 PERCENT SAUDI COMPANY BUT THE NEW SAUDI RELATIONSHIP WITH ITS PRESENT PARENT COMPANIES IN PRODUCTION, EXPLORATION AND DEVELOPMENT OF NEW RESERVES MUST BE PROFITABLE TO THE U.S., TO SAUDI ARABIA AND TO THE OIL COMPANIES THEMSELVES. YAMANI SAID THAT THERE WAS NO DOUBT THAT KUWAIT WOULD NATIONALIZE THE KUWAIT OIL COMPANY AND HE THOUGHT THIS ACTION WOULD BE FOLLOWED BY MOST COUNTRIES IN OPEC. BUT HE THOUGHT THAT IF A DIFFERENT ARRANGEMENT COULD BE REACHED WITH ARAMCO IT WOULD BE FOLLOWED BY QATAR AND (MUCH MORE IMPORTANT) BY ABU DHABI. HE SAID HE DIDN'T CARE IF THE NEW ARRANGEMENTS WERE PRECEDENT-SETTING OR NOT, THE SITUATION IN SAUDI ARABIA WAS UNIQUE IN THAT ONLY SAUDI ARABIA HAD POSSIBILITIES FOR VAST EXPANSION IN PRODUCTION.

4. YAMANI HAD GIVEN ME THE SAME ARGUMENTS ON VARIOUS OCCASIONS; HE HAD DONE THE SAME WITH JUNGERS, AND BOTH OF US HAD PASSED HIS VIEWS ON TO THE PARENT COMPANIES

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WITH STRONG URGINGS THAT THEY EXERCISE THEIR IMAGINATION.

5. I SAID WHAT I FEARED MOST FROM THE TREND OF THE DAY'S DISCUSSION WAS THAT SAUDI ARABIA MIGHT TAKE ACTION WHICH COULD BE INTERPRETED AS NATIONALIZATION, AND THAT IF THIS WERE SEEN AS THE FIRST FRUIT OF THE NEW SAUDI-AMERICAN RELATIONSHIP THE WHOLE ARRANGEMENT WOULD BE WEAKENED AND ANY JOINT VENTURES WE MIGHT TRY TO SET

UP WOULD BE INHIBITED OR EVEN DIE ABORNING.

6. YAMANI SAID THAT HE HAD ALWAYS REALIZED THIS; THIS WAS WHY HE HAD ASKED THE COMPANIES TO COME UP WITH IDEAS OF THEIR OWN WHICH THEY COULD ANNOUNCE TO THE WORLD AS A TRIUMPH OF IMAGINATION AND ADVANCED COMPANY THINKING. "FOR A COMPANY LIKE EXXON FULL OF CERTIFIED GENIUSES," HE SAID, "THIS SHOULD NOT BE TOO DIFFICULT." HE ASKED GARVIN ABOUT EXXON'S IDEAS ON HOW THIS GOAL COULD BE REACHED.

7. IT APPEARED TO YAMANI THAT EXXON HAD FAILED, FOR ALL GARVIN PRESENTED TO HIM WAS AN OFFER TO CONTINUE THE STATUS QUO. HE SAID ARAMCO HAD ALREADY MADE ITS "MAXIMUM CONCESSION" BY GIVING THE SAUDIS 60 PERCENT OF THE COMPANY, AND THEY EXPECTED TO REMAIN A 40 PERCENT MINORITY PARTNER FROM NOW ON.

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8. YAMANI ASKED ME HOW THE UNITED STATES GOVERNMENT VIEWED THE PRESENT ARRANGEMENTS. ARAMCO EQUITY OIL, HE SAID, IS RECEIVED AT \$7.10, AND THE BUY-BACK OIL IS AT PRICES "WELL BELOW" POSTED PRICE. SALES TO INDEPENDENTS BY ARAMCO ARE AT \$11.00 OR ABOVE. DOES THE U.S. GOVERNMENT, HE ASKED, REALLY WANT TO SEE THIS CONTINUE? IF IT DOES, IT IS QUITE CLEAR THAT ALL INDEPENDENT OIL COMPANIES WILL BE WIPED OUT; THAT ONLY MAJOR COMPANIES HOLDING LARGE CONCESSIONS IN PRODUCING AREAS, NOTABLY SAUDI ARABIA, WOULD SURVIVE.

9. I REPLIED THAT IT DIN'T NEED TO WORK THIS WAY. IF PRICES WERE REDUCED, AS YAMANI HAD SAID THEY NECESSARILY SHOULD BE, THE DIFFERENTIAL BETWEEN THE
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"SPOT PRICE" AND THE POSTED PRICE WOULD BE REDUCED. THE ARAMCO PARTNERS SHOULD CERTAINLY HAVE SOME ADVANTAGE BECAUSE OF THEIR PAST ACTIVITIES AND THEIR CAPITAL INVESTMENT; THE 30 CENT-40 CENT/BBL. THEY MADE BEFORE THE WORLD OIL MARKET EXPLODED GAVE THEM AN ADVANTAGE BUT IT STILL ALLOWED THE INDEPENDENTS TO OPERATE EFFECTIVELY. YAMANI ASKED IF I HAD SEEN THE RECENT TAX RATES OF MAJOR COMPANIES; A CAREFUL EXAMINATION, HE SAID, WOULD SHOW THAT THE ADVANTAGE TO THE MAJOR COMPANIES FROM THE TAX SYSTEM WAS SO GREAT THAT THE INDEPENDENTS WOULD SOON BE DESTROYED.

10. THE CONVERSATION WAS LONG AND RAMBLING AND WHEN GARVIN REPEATED FOR THE 12TH TIME HIS STATEMENT THAT THE PRESENT ARRANGEMENTS MUST ENDURE, YAMANI SAID IN A SHORT BURST OF TEMPER THAT IN THAT CASE ARAMCO WOULD VERY LIKELY HAVE TO ACCEPT WHATEVER ARRANGEMENTS HE PROPOSED FOR THEM. HE SAID THERE SHOULD BE LITTLE DOUBT IN ANYONE'S MIND THAT SAUDI ARABIA COULD HIRE THE NECESSARY TECHNOLOGY TO RUN THE OIL FIELDS, AT LEAST TO THE EXTENT NECESSARY TO PROVIDE THE INCOME TO SUSTAIN THE SAUDI GOVERNMENT.

11. AFTER LUNCH I WAS ABLE TO SPEAK PRIVATELY TO GARVIN WHO SAID HE WAS DISTURBED BY THE TREND OF THE CONVERSATION; HE SAID HE UNDERSTOOD YAMANI'S POSITION. EXXON IN FACT HAD SEVERAL PLANS THAT MIGHT BE ACCEPTABLE TO YAMANI AND THE SAUDIS BUT HE WAS NOT EMPOWERED BY THE OTHER ARAMCO PARTNERS TO DISCUSS ANYTHING WITH YAMANI OTHER THAN A CONTINUATION

OF THE STATUS QUO. HE SAID HE KNEW FROM HIS CON-
VERSATIONS WITH ME AND JUNGERS HOW YAMANI WOULD REACT
TO THIS BUT THE OTHER PARENTS THOUGHT HE HAD TO GET
THE WORK DIRECTLY FROM YAMANI. NOW HE HAD IT; HE SAID
THE MATTER WOULD BE DISCUSSED IN ARAMCO ON HIS RETURN
AND HE HOPED THE NEGOTIATION TEAM (HE DESCRIBED HIS
CURRENT MISSION AS PURELY EXPLORATORY) WOULD BE ABLE
TO MAKE PROPOSALS THAT BOTH ARAMCO AND SAUDI ARABIA
WOULD FIND ACCEPTABLE.

12. COMMENT: THE ARAMCO PARENTS ENJOY A CONSIDERABLE
ADVANTAGE OVER THE INDEPENDENTS. ARAMCO'S INVEST-
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MENT IS GREAT, THE COMPANY IS IMPORTANT TO THE U.S.
AND IN NO WAY DO I WISH TO DOWNPLAY THIS IMPORTANCE.
I THINK, HOWEVER, THAT WE WILL SOON HAVE TO RETHINK
VERY SERIOUSLY THE PROPOSITION THAT WHAT IS GOOD
FOR ARAMCO IN ITS PRESENT FORM IS NECESSARILY THE
GREATEST GOOD FOR THE U.S. A NEW SAUDI OIL COMPANY
RELATIONSHIP (WITH THE ARAMCO PARTNERS COOPERATING
AND WITH ASSURED SOURCE OF OIL, WITH THE INDEPENDENTS
ALSO HAVING ACCESS TO CRUDE AT REASONABLE PRICES -
REFTEL - AND WITH A GROWING SUPPLY OF SAUDI OIL), MAY
BE CLOSELY IN LINE WITH U.S. INTERESTS. IT WOULD
CERTAINLY BE PREFERABLE TO A LOSING FIGHT WITH SAUDI
ARABIA ON PRESERVING THE STATUS QUO. YAMANI SAID TO
ME AGAIN THAT HE HOPED TAVOULAREAS, THE ONLY ONE OF
THE MAJOR COMPANY EXECUTIVES HE RESPECTED, WOULD BE
A MEMBER OF THE NEGOTIATING TEAM. AKINS

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